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TO RUEHC/SECSTATE WASHDC PRIORITY 5574  
INFO RUEATRS/DEPT OF TREASURY WASHDC  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS  
RUEHKO/AMEMBASSY TOKYO 0610  
RUEHBJ/AMEMBASSY BEIJING 4165  
RUEHBY/AMEMBASSY CANBERRA 0944  
RUEHUL/AMEMBASSY SEOUL 4109  
ZEN/AMCONSUL SURABAYA

UNCLAS SECTION 01 OF 02 JAKARTA 002034

SIPDIS

FROM AMCONSUL SURABAYA 0053

DEPT FOR EAP/MTS AND EB/IFD/OMA  
TREASURY FOR IA-JEWELL  
COMMERCE FOR 4430-GOLIKE  
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO  
DEPT PASS USTR FOR WEISEL, KATZ, VESPINEL AND JGROVES

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [KIPR](#) [EFIN](#) [EINV](#) [ECON](#) [KCOR](#) [PGOV](#) [ID](#)

SUBJECT: Eastern Indonesia - Optical Disk Factory Closures Reducing  
Pirated Disk Supplies

Ref A: Jakarta 1813; Ref B: 06 Jakarta 3892

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1. (SBU) SUMMARY. ConGen Surabaya informally surveyed pirated optical disk vendors in Bali and Surabaya to assess the impact on supplies after two Jakarta pirated disk factories were raided July 2 (Ref A). Initially we noticed minimal changes in Bali pirated disk supplies. However, a Balinese pirated disk distributor told us that the factory closures had affected his ability to get new pirated disk supplies from Jakarta and his vendor customers had begun complaining. There were noticeably fewer pirated disk vendors in Surabaya than when last surveyed in 2006. Surabaya vendors were taking elaborate security measures to avoid police detection, suggesting that East Java police are following through their promised commitment to IPR law enforcement (Ref B). END SUMMARY.

2. (SBU) Indonesian police raided two optical disk factories in Jakarta July 2, confiscating equipment able to produce 220,000 pirated music and video disks per day (Ref. A). ConGen Surabaya went undercover in Bali and Surabaya to assess the impact factory closures are having on pirated disk supplies. We also took the opportunity to review the impact of stepped-up police enforcement of IPR protection laws in East Java announced by Provincial Police Chief Herman Sumawiredja March 2006 (Ref. B). Sumawiredja told his regency and city police chiefs that IPR law enforcement would be an important factor in East Java police promotion and advancement opportunities. East Java police cracked down on most pirated disk vendors in the province shortly after the announcement.

Bali Disk Vendors Starting To Feel Supply Pinch  
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3. (SBU) During a July 15 survey in Bali, we initially noticed little difference in pirated disk vendor operations in Kuta, Legian and Seminyak, the largest tourist shopping areas in Bali. We visited 27 out of more than 100 pirated disk stores and stalls in the area. There were no special security measures being taken by store operators to avoid police detection. According to shop owners, inventory levels range from 5-10,000 disks in small shops to

50,000 disks in a pirated disk "Super Store". Volume discounts are common, ranging from "buy 5, get one free" to "buy 1,000, get 365 free". One Super Store manager told us that they average several tourist customers per week buying 1,000 or more pirated disks, generally good quality copies of unreleased films that would be resold in their home countries. Disc prices have recently increased 43% to \$1.10 and disk prices no longer include a plastic case, which now costs an extra \$.10. Several shop owners complained that local police increases in monthly "security fees", rather than supply shortages, forced the price increase.

14. (SBU) In one store we overheard a conversation between a Balinese pirated disk distributor and the shop owner. The shop owner complained that she only had 100 copies of the new 95% quality "Die Hard 4.0" remaining in inventory and was selling 10 of the disks an hour and needed many more. She also complained that a better quality copy than the 30% "Harry Potter and the Order of the Phoenix" had not yet been released. (Note: Pirated DVDs in Indonesia are quality graded by the vendors for the benefit of customers. A 30% quality disk would typically be recorded on a digital camcorder in a theater and have low quality sound and picture. A 95% copy typically comes from a preview disk sent by movie studios to theater owners and has digital quality sound and picture but contains periodic subtitles warning that the disk is not for resale. End Note.) The distributor replied to his shop-owner customer that his largest supplier from Jakarta had been closed down by police and he was struggling to get new stocks of pirated disks. He said that raids happened periodically and the factories typically reopened after a few weeks, once the police are paid off. The distributor told us that virtually all pirated disks in Bali come from Jakarta now and the two factory closures had stopped supplies of certain types of disks, especially television programs. He added that Malaysian disk suppliers were unreliable, as their disks had become too expensive and difficult to get through customs. Balinese pirated disk suppliers are now completely dependent on Jakarta factories for the thousands of disks per week sold on the island.

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#### Surabaya Disk Sellers Wary of Police

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15. (SBU) A July 20 survey in Surabaya showed there are fewer pirated optical disk vendors in Surabaya compared to March 2006. The number of pirated disk sellers in Pasar Atom dropped from more than two dozen to 11. The 11 remaining ethnic Javanese vendors are operating under much tighter security. Storefronts show only original music and video disks. The shops have hidden entrances to back rooms for vetted customers to view pirated disk inventories. Stall vendors have only catalogs of pirated disks available for viewing. Once a customer selects disks, stall attendants retrieve them from inventories kept separately. The new ITC Mall has seven ethnic Chinese-owned pirated DVD shops all operating under tight security. Mall security guards work as lookouts, alerting shop owners, who then shutter their stores before police arrive. Tunjungan Center formerly had several dozen ethnic Madurese disk vendors, all of which are now closed. Galaxy Mall and Super Mall are down to one pirated disk vendor each. The Super Mall vendor is only open from 7 to 10 in the evening, after police leave duty. Surabaya vendor disk inventories range from 5-10,000 disks and are priced at \$0.77. Storeowners say 100% of their pirated disk supplies come from Jakarta, but they said they have not noticed a change in supply levels since the factory closures.

#### Comment

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16. (SBU) Our informal survey of pirated optical disk vendors points to two primary conclusions. The raids on two pirated optical disk factories in Jakarta are beginning to have an impact on pirated disk supplies in Bali, a primary Indonesian pirated disk distribution point for foreign national tourists. Continued pirated disk factory raids and follow-up with police to ensure the factories are not reopened will have even greater impact on pirated disk supply. Also, local police commitment to IPR enforcement hinders illegal disk vendors from distributing their products. The reduced numbers

of pirated disk vendors and reduced availability of pirated disks in Surabaya is compelling evidence that East Java police are maintaining their promised enforcement efforts. ConGen Surabaya will press Balinese police leaders to make a similar commitment to IPR enforcement in their province.

MCCLELLAND/HUME